# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

UNSTARRED QUESTION NO:4078
ANSWERED ON:23.03.2001
WORKING OF NBF COMPANIES
ANANTRAO GUDHE

**Will the Minister of FINANCE be pleased to state:**

(a) whether the Non-Banking Financial Companies and Financial Institutions have sought to relax new borrowing norms from the Government;

(b) if so, the details of the memorandum submitted in this regard;

(c) the details of action taken/proposed thereon; and

(d) the details of regulatory/monitoring mechanism to strengthen the working of NBFC and FIs toprotect the interests of small investors ?

## Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) :- Yes, Sir. Reserve Bank of India (RBI) has received representations from Non-Banking Financial Companies (NBFCs) fo relaxation of borrowing norms.

(b):- Unrated and underrated NBFCs engaged inequipment leasing & hire purchase activities have represented to RBIto allow them to accept public deposits up to four times of their Net Owned Funds (NOF) against existing ceiling of 1.5 times of NOF or Rs. 10 crores whichever is less. NBFCs have also represented for relaxation of borrowing norms from banks. They have also represented for relaxation of norms relating to delivery of credit in case of large loans (working capital limit of Rs. 10 crore and above) in the form of 80% term loan and 20% cash credit.

(c):- The linkage of the quantum of public deposit that an NBFC can accept to its NOF is based on the recommendations of the Task Force on NBFCs, which had gone into the entire gamut of regulations consistent with the protection of interest of depositors. It is too early to consider relaxation in deposit limits prescribed by RBI at the recommendations of the Task Force. RBI has liberalized borrowing norms from banks by removing caps on borrowings by NBFCs from banks on May 25, 1999. Commercial banks have also liberty to vary the percentage of term loan and cash credit on merits and needs of each case.

(d) :- Comprehensive regulatory framework has been put in place which is aimed at protecting the interests of the depositors and ensuring that NBFCs functionon sound and healthy lines. The regulatory framework includes inter-alia compulsory registration, maintenance of liquid assets, transfer of at least 20% of net profit to reserve fund and empowering RBI to issue directions to NBFCs. RBI takes various actions againsterrant NBFCs for various defaults and contravention of provisions of RBI Act and directions issued thereunder. Government has introduced Financial Companies Regulation bill, 2000 in the Lok Sabha on 13th December 2000, which is expected to provide better safeguards to the depositors of NBFCs. The Bill has been referred to Standing Committee on Finance by the Hon`ble Speaker, Lok Sabha.